

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, FEBRUARY 5, 2002**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, February 5, 2002 commencing at 7:00 a.m.

A. ROLL CALL

Present: Council Members – Hitchcock, Howard, Land, Nakanishi, and Mayor Pennino

Absent: Council Members – None

Also Present: City Manager Flynn, Deputy City Attorney Schwabauer, and City Clerk Blackston

B. CITY COUNCIL CALENDAR UPDATE

City Clerk Blackston reviewed the weekly calendar (filed).

C. TOPIC(S)

C-1 "Review of major budget preparation milestones and discussion of recommended changes to Budget Policies"

Finance Director McAthie outlined the following benefits of two-year budgets:

- Serves to increase credibility and public confidence
- Encourages sound financial management and fiscal integrity
- Increases efficiency
- Directs attention to the total financial condition
- Establishes a forward looking approach to planning
- Allows for continuity in handling financial affairs
- Spans the additional time it typically takes to get a new activity or service up and running

Ms. McAthie explained that as this is the second year of a two-year budget, the focus of discussion will be on significant changes to the figures disclosed in the 2001-03 budget. She reviewed the draft calendar entitled "Major Budget Preparation Milestones" (filed). She stated that policies are a guide to the preparation and execution of the budget. They cover a variety of items including general revenue management, debt management, and projected targets for fund balance reserves. She reported that Fitch, one of the top three rating agencies, stated that Lodi's budget policy addresses everything they consider when determining a rating for an agency. She noted that Fitch used the City's budget document as a prelude to their own. Ms. McAthie read a quote from the Government Finance Officers Association reviewers who stated, "your document is outstanding as a policy document." She noted that the Association also asked if they could use Lodi's policy document in their book of illustration examples for other agencies.

Ms. McAthie reviewed the following changes to the budget policies as recommended by the City Manager:

- Pages B-1 and B-7, 'Revenue Distribution' – eliminate the word "distribution".
- Page B-9, Section D – correct the in-lieu percentages for water and sewer to 12%.
- Page B-9 – add a new section entitled "Grants and Donations" and note that Council must approve applications for grants or acceptance of donations containing restrictions that may have an impact on future budgets.

- Page B-12, Section F, 'Debt Management' – add the words "other than enterprise fund projects". No more than 60% of all capital projects other than enterprise fund projects would be funded from long term financing. Direct debt would not exceed 2% of the City's assessed valuation. Ms. McAthie reported that currently the City has one general fund long term financing and it is under 60%. The current assessed valuation is \$3.1 billion, 2% of which would amount to \$61.2 million. The direct General Fund debt would be \$26 million.
- Page B-21, Fleet Policy – update the target funding for enterprise funds based on the vehicle replacement requests that are listed on page E-83 of the 2001-03 budget document. The recommended change would be: Water Fund – 0; Wastewater Fund – \$71,000; and Electric Fund – \$435,000.

Mayor Pro Tempore Hitchcock requested that the Council be given a copy of the appraisal done on City assets.

City Manager Flynn introduced the subject of the Electric Utility Market Cost Adjustment (MCA) and associated in-lieu transfer.

Council Member Land stated that he did not approve of the \$900,000 from the MCA being transferred; however, it had been included in the budget. He voiced support for bringing this matter back to Council to consider possible elimination or reductions in services or programs to offset the \$900,000. He noted that both revenues and the overall budget should be considered.

City Manager Flynn reported that there was no projection of MCA in the second year of the budget. He clarified that the in-lieu transfer takes place at the end of the year.

At the request of Mayor Pro Tempore Hitchcock, Ms. McAthie described the history of the in-lieu fee. She explained that prior to 1993, it was a dollar amount. Due to difficulties in projecting budget impacts, it was subsequently decided to determine a percentage based on prior year's revenues.

In response to Council Member Nakanishi, Mr. Flynn reported that at the time the water and sewer rates were increased, staff anticipated that the General Fund would help bear some of the costs.

Mayor Pro Tempore Hitchcock felt that the Electric Utility in-lieu transfer of 12% was too high.

Electric Utility Director Vallow confirmed that rates have remained flat since 1997. Revenues have increased due to selling more kilowatt hours. He reported that the months of May and June can account for a 3% to 4% overall budget fluctuation. He projected that the transfer to the General Fund will be 4% lower than what was anticipated, due to low summer temperatures and increased conservation last summer.

Council Member Nakanishi pointed out the irony in the fact that Council is now considering that the in-lieu transfer may be too high, when only a few years ago, there was discussion about the implications of deregulation and borrowing \$40 million to protect the transfer to the General Fund and profit margin. He stated that Lodi has the lowest electric rates even with the 12% transfer, and questioned whether it would be a good business plan to decrease it.

Discussion ensued regarding the budget calendar and proposed adoption date of April 17, 2002; general consensus was to delay budget adoption until June.

Deputy City Manager Keeter asked Council for clarification on a previous request that was made for public monthly expenditure reports.

Continued February 5, 2002

Mayor Pro Tempore Hitchcock stated that the School District provides a public report at each board meeting listing every check and who it was written to.

Mayor Pennino and Council Member Land were not in favor of the request to provide detailed expenditure reports.

In response to Council Member Nakanishi, Ms. McAthie estimated that it would take two hours each month to produce such a report.

City Manager Flynn stated that one of the debates against publishing warrant registers is that it tends to focus attention on the minutiae of operations, rather than major issues.

Mayor Pennino and Council Member Nakanishi pointed out that this information is available to any member of the public who requests it from the Finance Department. Council Member Nakanishi suggested that when Ms. Hitchcock becomes Mayor, she use the platform of public accountability.

D. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

E. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 7:47 a.m.

ATTEST:

Susan J. Blackston
City Clerk

Mayor's & Council Member's Weekly Calendar

WEEK OF FEBRUARY 5, 2002

Tuesday, February 5, 2002

Reminder

Pennino and Howard. COG One Voice, Sacramento, 2/4 - 2/5.

7:00 a.m.

Shirtsleeve Session

1. Review of major budget preparation milestones and discussion of recommended changes to Budget Policies

Wednesday, February 6, 2002

7:15 - 8:30 a.m. Chamber of Commerce Business-4-Breakfast, Wine and

Roses. Featured speaker: Carol Whiteside, Great Valley Center.

7:00 p.m.

City Council meeting

3 Closed Session Items (NOTE: 6:00 p.m.)

3 Presentations

14 Consent Calendar Items

8 Regular Calendar Items

Meeting of the RDA

Thursday, February 7, 2002

8:00-10:00 a.m. Pennino. Rail Commission meeting.

Friday, February 8, 2002

Saturday, February 9, 2002

Sunday, February 10, 2002

Monday, February 11, 2002

Disclaimer: This calendar contains only information that was provided to the City Clerk's office

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CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Review of Major Budget Preparation Milestones and Discussion of Recommended Changes to Budget Policies

MEETING DATE: February 5, 2002

PREPARED BY: Deputy City Manager and Finance Director

RECOMMENDED ACTION: That Council review Major Budget Preparation Milestones and discuss the recommended changes to budget policies for the 2002-03 Budget.

BACKGROUND INFORMATION: During the Shirtsleeve Session, staff will review with Council Major Budget Preparation Milestones, City Manager recommended changes to four current budget policies, and one City Manager recommended new policy on grants and donations.

In addition, staff will be seeking clarification on a Council Member's request regarding a monthly public report listing all expenditures. The Finance Department currently produces several monthly expenditure reports showing both summary and detail of budget and actual expenditures.

This meeting will launch the budget process for the second year of the 2001-03 Financial Plan and Budget.


Janet Keeter
Deputy City Manager


Vicky McAthie
Finance Director

Attachments

APPROVED: _____


H. Dixon Flynn -- City Manager



2002-2003 FINANCIAL PLAN AND BUDGET

Major Budget Preparation Milestones And Discussion on Budget Policies

2/5/02




BENEFITS OF A TWO YEAR BUDGET

- Q **Credibility & public confidence**
- Q **Sound financial management & fiscal integrity**
- Q **Saves time & energy**
- Q **Directs attention to total financial condition**
- Q **Forward looking approach to planning**
- Q **Continuity in handling financial affairs**




MAJOR BUDGET PREPARATION MILESTONES

- Q **Second Year of 2 Year Budget**
 - **Significant Changes only**
- **Major Budget Preparation Milestones**
 - **Policy Discussion**
 - **City Manager review of Significant Changes**
 - **Council Review & discussion of Significant Changes**
 - **Adopt 2002-03 Budget**




QUOTES REGARDING POLICY DOCUMENT

- Rating Agency – Fitch**
 - Addresses everything they look at when giving ratings
 - Model their policy document after City's
- Government Finance Officers Association**
 - Your document is "outstanding" as a policy document



RECOMMENDED CHANGES - MAJOR BUDGET POLICIES

- Revenue Distribution**
 - Impacts Pages B-1 & B-7
 - Drop word "Distribution"
- Recommended change:**
 - REVENUE



RECOMMENDED CHANGES - MAJOR BUDGET POLICIES -continued

- REVENUE**
 - Impacts Page B-9 Section D
 - Corrects In-lieu Percentages – Water & Sewer
- Recommended change:**

– In-lieu of Tax – Water	12%
– In-lieu of Tax – Sewer	12%

RECOMMENDED CHANGES - MAJOR BUDGET POLICIES -continued

Q REVENUE

- Impacts Page B-9
- Add new Section F – Grants & Donations
- Recommended change:
 - Council must approve applications for grants or acceptance of donations containing restrictions that may have an impact on the budget.

RECOMMENDED CHANGES - MAJOR BUDGET POLICIES -continued

Q Debt Management

- Impacts Page B-12 Section F
- Add words "other than Enterprise Fund projects"
- Recommended change:
 - No more than 80% of all capital projects other than Enterprise Fund projects will be funded from long-term financing; and direct debt will not exceed 2% of the City's assessed valuation.

RECOMMENDED CHANGES - MAJOR BUDGET POLICIES -continued

Q FLEET POLICY

- Impacts Page B-21
- Updates target funding for Enterprise Funds based on replacement requests
- Recommended change:

– Water Fund	zero
– Wastewater Fund	\$ 71,000
– Electric Fund	\$435,000

MAJOR BUDGET PREPARATION MILESTONES

	STAFF	PUBLIC MEETINGS
Annual Audit Report to Council		1/2/02
City Manager, budget staff – Prelim meeting	1/9/02	
Prelim Meeting to Review Calendar and Budget Policies		2/5/02
Issue Budget Instructions Memo	2/6/02	
Submit Requests for Significant Budget Change to Finance	2/15/02	
City Manager Review of Significant Change Requests	2/25/02	
Budget Review with Council -		3/12/02
Budget Review with Council -		3/19/02
Introduced Final Draft of 2002-03 Budget		4/16/02
Adopt 2002-2003 Budget		4/17/02

2001-2003 FINANCIAL PLAN AND BUDGET

OVERVIEW - BUDGET POLICIES AND GOALS

OVERVIEW

The overall goal of the City's Financial Plan and Budget is to establish and maintain effective management of the City's resources. Formal statements of budget policy and major goals provide the foundation for effective planning. Accordingly, this section describes the basic budget policies used in guiding the preparation and management of the City's overall budget. This section is composed of the following major units:

- * Budget Management and Control Policies
- * Major City Goals

Some of the benefits to establishing financial policy include:

1. Publicly adopted policy statements contribute greatly to the credibility of and public confidence in the City. For the credit rating industry and prospective investors, such statements show the City's commitment to sound financial management and fiscal integrity.
2. Established policy saves time and energy. Once decisions are made at the policy level, the issues do not need to be discussed each time a decision has to be made.
3. The process of developing overall policy directs the attention of staff and Council to the City's total financial condition rather than single-issue areas. Moreover, this process requires staff and Council to think about linking long-term financial planning with day-to-day operations.
4. As overall policies are developed, the process of trying to tie issues together can bring new information to the surface and reveal further issues that need to be addressed.
5. Developing financial policies reinforces the Council's policy role in maintaining good financial condition.
6. Setting financial policies can improve the City's fiscal stability by setting a forward-looking approach to planning.
7. Explicit policies contribute to continuity in handling the City's financial affairs.

BUDGET MANAGEMENT AND CONTROL POLICIES

The following policies guide the preparation and execution of the 2001-2003 Financial Plan and Budget:

- | | |
|--|---|
| * Financial Plan Organization | * Investments |
| * Budget Administration | * Capital Financing and Debt Management |
| * General Revenue Management | * Capital Improvement Budget |
| * Recreation and Community Center Fees | * Human Resource Management |
| * Enterprise Fund Fees and Rates | * Productivity Reviews |
| * Other Fees and Rates | * Contracting For Services |
| * Revenue | * Allocating Cost of Services |
| * Appropriation Limitation | * Carryover Policy |
| * Fund Balance Designations and Reserves | * Fleet Policy |

2001-2003 FINANCIAL PLAN AND BUDGET

OVERVIEW - BUDGET POLICIES AND GOALS

MAJOR CITY GOALS

The involvement of the City Council in setting major City goals is essential to the budget process. These goals provide short term and long term direction to staff, determine the allocation of resources and establish priorities. These goals will provide focus to the organization-wide efforts of staff and ensure that the most important, highest priority objectives are accomplished and, that these priorities are communicated to the public.

The major City goals are provided in this part of the 2001-2003 Financial Plan and Budget.

2001-2003 FINANCIAL PLAN AND BUDGET

BUDGET POLICIES

FINANCIAL PLAN ORGANIZATION

- A. Through its financial plan, the City will:
1. Identify community needs for essential services
 2. Organize the activities required to provide these services.
 3. Establish policies and goals that define the nature and level of services required.
 4. Identify activities performed in delivering services.
 5. Propose objectives for improving the delivery of services.
 6. Identify and appropriate resources required to perform services and accomplish objectives.
 7. Set standards to measure and evaluate the:
 - a. Output of activities
 - b. Accomplishment of objectives
 - c. Expenditure of appropriations
- B. The City will use a two-year financial plan and budget concept to emphasize long-range planning and effective management of services. The benefits of a two-year financial plan and budget are:
1. Reinforces long-range planning
 2. Concentrates on the development and budgeting for significant objectives
 3. Establishes realistic schedules for completing objectives
 4. Provides for orderly and structured operations
 5. Promotes orderly spending patterns
- C. The two-year financial plan and budget will establish measurable objectives and allow reasonable time to accomplish those objectives.
- D. The status of major program objectives will be reported to the Council semi-annually.
- E. The City Council will review and amend appropriations, if necessary, semi-annually.

BUDGET ADMINISTRATION

A. **City Council**

The City Council is ultimately responsible to the public for the delivery and conduct of City services and facilities. Accordingly, the Council appropriates funds to ensure the delivery of services at the levels and in the priority established by the Council.

2001-2003 FINANCIAL PLAN AND BUDGET

BUDGET POLICIES

B. City Manager

The City Manager as the chief administrative officer provides the City Council and Staff with general direction in the development and formulation of the staff's budget recommendation. This includes: evaluating and assessing current and projected issues confronted by the City; determining the demand for services and facilities; identifying the concerns of the voters; assessing the current and projected financial condition of the City; and determining the final staff recommendation.

C. Finance Director/Treasurer

The Finance Director as the chief financial officer is responsible for budget development and administration. This includes: developing and issuing the budget instructions and calendar; advising the City Manager on budget policies, including recommended annual target funding levels for fleet funds; reviewing budget requests to ensure they are complete and accurate; preparing the preliminary budget recommendation for review by the City Manager; and, publication of the approved budget.

D. Public Works Director

The Public Works Director is responsible for preparing the City's capital improvement budget (CIB) and the City's Equipment Replacement Schedule (ERS). In this capacity, the Public Works Director works closely with the Electric Utility Director to prepare an integrated CIB and ERS in recognition of the unique responsibilities and scope of services offered by the Electric Department.

E. Department Directors

Department Directors are responsible for preparing their operating budget requests and capital budget requests in accordance with the City's budget instructions.

F. Fleet Committees

Fleet committees were established to serve the City Manager in all vehicle-related matters to include budgeting, acquisition, disposition, assignments, vehicle operations, maintenance and insurance.

G. Failure to Adopt Budget

If the City Council fails to adopt the budget by July 1, the City Council may elect one of the following courses of action until passage of a budget and the appropriation of funds: (1) Provide the City Manager with Continuing Resolution Authority to allow continued services at expenditure levels not greater than those levels approved in the prior year budget; or (2) Require staff to obtain prior approval for the expenditure (disbursement) of City funds.

H. Public Record

Copies of the adopted City budget shall be public records available to the public upon request.

GENERAL REVENUE MANAGEMENT

- A. The City will seek to maintain a diversified and stable revenue base to protect it from short-term fluctuations in any one revenue source.

2001-2003 FINANCIAL PLAN AND BUDGET

BUDGET POLICIES

- B. To emphasize and facilitate long-range planning, the City will project operating revenues for the succeeding five years.
- C. The City will make all current expenditures with current revenues, avoiding procedures that balance current budgets by accruing future revenues, rolling over short term debt or borrowing reserves of one fund to another.

RECREATION AND COMMUNITY CENTER FEES

- A. Recreation service cost recovery goals are addressed as an integral component of the City's annual comprehensive user fee analysis process. It is the City's goal that a minimum of 30% of the total cost of the City's recreation and community center programs should be recovered through fees and charges for recreation activities and the use of City facilities and equipment. In achieving this overall cost recovery goal, the following guidelines will be used:

- 1. Cost recovery for activities directed to adults should be relatively high.
- 2. Cost recovery for activities for youth should be relatively low.

Although ability to pay may not be a concern for all youth and senior participants, these are desired program activities, and the cost of determining need may be greater than the cost of providing a uniform service fee structure to all participants. Further, there is a community wide benefit to encourage high-levels of participation in youth recreation activities regardless of financial status.

- 3. For cost recovery activities of less than 100%, there should be a differential in rates between residents and non-residents.
- 4. These policy guidelines are sufficient in themselves in providing direction for setting the recreation and community center fees. Although these targets may be internally useful in administering recreation fees, the City's management should have as much flexibility as possible in setting specific activity fees as long as they meet the objectives and criteria provided above. However, the Recreation Department and Community Center will prepare and submit a summary of internal cost recovery targets to the City Manager for various activity categories at least annually.
- B. Charges will be assessed for use of rooms, pools, gymnasiums, ball fields, special use areas, and recreation equipment for activities not sponsored or co-sponsored by the City. Such charges will generally conform to the fee support categories listed above.
- C. The Recreation Department and Community Center may waive fees with the approval of the City Manager when it is determined that an undue hardship exists or when in the best interests of the City.

2001-2003 FINANCIAL PLAN AND BUDGET

BUDGET POLICIES

ENTERPRISE FUND FEES AND RATES

- A. The City will set fees and rates at levels which fully cover the total direct and indirect costsincluding operations, capital outlay and debt service..... of the following enterprise programs: electrical, water, sewer, and transit.
- B. The City will annually review and adjust enterprise fund fees and rates as required to ensure that they remain appropriate and equitable; and to stem large rate increases.

OTHER FEES AND RATES

A. Ongoing Review

Fees and rates will be reviewed and updated on an ongoing basis to ensure that they are correct and appropriate based on the changing needs of the community, i.e. economic concerns, social issues, public safety.

B. General Concepts Regarding the Use of Service Fees and Rates

The use of fees and rates should be subject to the following general concepts:

1. Revenues normally will not exceed the reasonable cost of providing the service.
2. Cost recovery goals should be based on the total cost of delivering the service, including direct costs, departmental administration costs, and organization wide cost such as accounting, personnel, data processing, vehicle maintenance and insurance.
3. The method of assessing and collecting fees should be as simple as possible in order to reduce the administrative cost of collection.
4. Rate structures should be sensitive to the "market" for similar services as well as to smaller, infrequent users of the service and the influence rates and fees have on economic development.
5. A unified approach should be used in determining cost recovery levels for various programs based on the factors discussed above.

C. Low Cost Recovery Services

Based on the criteria discussed above, the following types of services should have very low cost recovery goals. In selected circumstances, there may be specific activities within the broad scope of services provided that should have user charges associated with them. However, the primary source of funding for the operation as a whole should be general purpose revenues, not user fees.

1. Maintaining and developing public facilities that are provided on a uniform, community wide basis such as streets, parks and general purpose buildings.
2. Delivery of social service programs and economic development activities.

BUDGET POLICIES

D. Comparability with Other Communities

1. Fee surveys should never be the sole or primary criteria in setting City fees. There are many factors that affect how and why other communities have set their fees at their levels. For example:
 - a. What level of cost recovery is their fee intended to achieve compared with Lodi's cost recovery objectives?
 - b. What costs have been considered in computing the fees?
 - c. When was the last time that their fees were comprehensively evaluated?
 - d. What level of service do they provide compared with Lodi's service or performance standards?
 - e. Is their rate structure significantly different than Lodi's and what is it intended to achieve?
2. Surveys comparing the City's fees to other communities is useful background information in setting fees for several reasons:
 - a. They reflect the "market" for these fees and can assist in assessing the reasonableness of the City's fees.
 - b. If prudently analyzed, they can serve as a benchmark for how cost effective the City provides services.

These are difficult questions to address in fairly evaluating fees among different cities.



REVENUE

The Council recognizes that generally accepted accounting principles for local government discourage the "earmarking" of General Fund revenues, and accordingly, the practice of earmarking general fund revenues for specific programs should be minimized. Approval of the following Revenue Distribution policies for 2001-2003 does not prevent future Councils from directing General Fund resources to other funds and activities as necessary.

2001-2003 FINANCIAL PLAN AND BUDGET

BUDGET POLICIES

A. Property Tax Allocation

1. The City's property tax serves to provide for general municipal services as well as for debt service, retirement obligations, public improvements and library purposes. The passage of Proposition 13 on June 6, 1978, drastically changed the method of establishing and allocating property tax revenues for all local agencies in California. In addition to limiting annual increases in market value, placing a ceiling on voter approved indebtedness and redefining assessed valuations, Proposition 13 established a maximum County wide levy for general revenue purposes of 1% of market value. Under subsequent state legislation which adopted formulas for the distribution of this countywide levy, the City now receives a percentage of total property tax revenues.
2. As discussed above, the City no longer controls the amount or distribution of its property tax. In distributing property tax revenues between funds since the passage of Proposition 13, the following minimum ratios for special purposes have traditionally been used based on the tax rates that were in effect prior to the passage of Proposition 13:

Fiscal Year 1978-79	Tax Rate Per \$100	Percent
Special Municipal Purposes		
Library	\$.30	17.86%
General Municipal Purposes	<u>1.38</u>	<u>82.14%</u>
TOTAL	\$ 1.68	100.00%

3. For 2001-2003 property tax revenues will be distributed proportionately to the following funds as follows:

	2001-02	2002-03
General Fund	50%	50%
Capital Outlay Fund - General Fund	30%	30%
Library Fund	<u>20%</u>	<u>20%</u>
TOTAL	100%	100%

4. The distribution of property tax received on land annexed to the City will be in accordance to the agreement with San Joaquin County.

- B. All Gasoline Tax revenues will be used for street maintenance and construction activities. Pursuant to the San Joaquin County's local Transportation Sales Tax (Measure K), the City must meet the "Maintenance of Effort" (MOE) requirement which is based on the annual average of the City's street and road expenditures funded by the General Fund fixed on a three year period.
- C. All Transportation Development Act (TDA) revenues will be allocated to alternative transportation programs, including regional and municipal transit systems, bikeway improvements and other programs or projects designed to reduce automobile usage. It is expected that

2001-2003 FINANCIAL PLAN AND BUDGET

BUDGET POLICIES

alternative transportation programs - in conjunction with other state and federal grants for this purpose- will be self-supporting from TDA revenues. As available, TDA funds will also be used for street maintenance projects.

D. Enterprise Fund Allocations to the General Fund

1. The goal of Proposition 4 is to limit growth in appropriations of both state and local government to changes in the cost of living and population in order to control spending levels. Proposition 4 further describes the difference between "tax proceeds" and fees. Tax proceeds are the revenue from regulatory licenses, user charges and user fees to the extent the revenue exceeds the cost of providing the regulation, product or service. (This includes transfers from an enterprise fund to the extent those funds exceeded the cost of providing the services).
2. As discussed above, the funds transferred from the City's enterprise funds to the City's general fund are "In-Lieu of Taxes" to the extent they exceed the cost of services provided by general services (accounting, personnel, legal, insurance, etc.). These taxes will be levied based on prior year revenues as follows:

	<u>2001-02</u>	<u>2002-03</u>
In-lieu of Tax - Electric	12%	12%
In-lieu of Tax - Water	17%	12%
In-lieu of Tax - Sewer	20%	12%

E. Special Revenue Allocations to the General Fund

Revenues the City receives for specific services (i.e. vehicle tow charges) will not be designated for use by an individual department unless required by statute or approved by the City Council. When required by statute (i.e. asset seizure), these funds will be first allocated to the purchase of necessary and essential equipment and/or services prior to purchase with General Fund resources.

F. Grants and Donations

Council must approve applications for grants or acceptance of donations containing restrictions that may have an impact on the budget.

APPROPRIATION LIMITATION

- A. The Council will annually adopt a resolution establishing its appropriation limit calculated in accordance with Article XIII B of the Constitution of the State of California, Section 7900 of the State of California Government Code, and any other voter approved amendments or state legislation that affect the City's appropriation limit.
- B. The City will strive to develop revenue sources, both new and existing, which are considered non-tax proceeds in calculating its appropriations subject to limitation.

2001-2003 FINANCIAL PLAN AND BUDGET

BUDGET POLICIES

- C. The City will annually review user fees and charges and report to the Council the amount of program subsidy, if any, that is being provided by the General Fund or Enterprise Funds.

FUND BALANCE DESIGNATIONS AND RESERVES

- A. The City should maintain fund balances of at least 15% of operating expenditures in the General Fund as well as the Electric, Sewer, and Water Funds. This is considered the minimum level necessary to maintain the City's credit worthiness and to adequately provide for:
1. Economic uncertainties, local disasters, and other financial hardships or downturns in the local economy.
 2. Contingencies for unforeseen operation or capital needs.
 3. Cash flow requirements.
- B. The City will establish and maintain an Equipment Fund to provide for the timely replacement of vehicles and capital equipment. This includes items with an individual replacement cost of \$3,000 or more. The minimum fund balance in the Equipment Fund should allow for annual fluctuations in expenditures while maintaining a level annual transfer and allow for emergency replacement purchases. The annual contribution to the Fund will generally be based on the annual "use allowance" which is determined based on the estimated life of the vehicle or equipment and its original purchase cost. Interest earnings and sales of surplus equipment as well as any related damage and insurance recoveries will be credited to the Equipment Fund.
- C. The Council may designate specific fund balance levels for future development of capital projects which it has determined to be in the best long-term interests of the City.
- D. In addition to the designations noted above, fund balance levels will be sufficient to meet funding requirements for projects approved in prior years which are carried forward into the new year; debt service reserve requirements; reserves for encumbrances; and other reserves or designations required by contractual obligations, state law, or generally accepted accounting principles.

INVESTMENTS

- A. Investments and cash management will be the responsibility of the City Finance Director/Treasurer or designee.
- B. The City's primary investment objective is to achieve a reasonable rate of return while minimizing the potential for capital losses arising from market changes or issuer default. Accordingly, the following factors will be considered in priority order in determining individual investment placements:
1. Safety
 2. Liquidity
 3. Yield

2001-2003 FINANCIAL PLAN AND BUDGET

BUDGET POLICIES

- C. The City will strive to keep idle cash balances fully invested through daily projections of cash flow requirements. To avoid forced liquidations and losses of investment earnings, cash flow and future requirements will be the primary consideration when selecting maturities.
- D. As the market and the City's investment portfolio change, care will be taken to maintain a healthy balance of investment types and maturities.
- E. The City will invest only in those instruments authorized by the California Government Code Section 53601. The City will not invest in stock, will not speculate, and will not deal in futures or options. The investment market is highly volatile and continually offers new and creative opportunities for enhancing interest earnings. Accordingly, the City will thoroughly investigate any new investment vehicles prior to committing City funds to them.
- F. Current financial statements will be maintained for each institution in which cash is invested. Investments will be limited to 20 percent of the total net worth of any institution and may be reduced further or refused altogether if an institution's financial situation becomes unhealthy.
- G. In order to maximize yields from its overall portfolio, the City will consolidate cash balances from all funds for investment purposes, and will allocate investment earnings to each fund in accordance with generally accepted accounting principles.
- H. Ownership of the city's investment securities will be protected through third-party custodial safekeeping.
- I. The City Finance Director/Treasurer will develop and maintain a comprehensive, well documented investment reporting system which complies with Government Code Section 53607. This system will provide the City Council with appropriate investment performance information.
- J. The City Finance Director/Treasurer will develop and maintain an Investment Management Plan which addresses the City's administration of its portfolio, including investment strategies, practices, and procedures.

CAPITAL FINANCING AND DEBT MANAGEMENT

Capital Financing

- A. The City will consider the use of debt financing only for one-time capital projects and only under the following circumstances:
 - 1. When the project's useful life will exceed the term of the financing.
 - 2. When project revenues or specific resources will be sufficient to service the long-term debt.

BUDGET POLICIES

- B. Debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The issuance of short-term instruments such as revenue, tax, or bond anticipation notes is excluded from this limitation.
- C. Capital improvements will be financed primarily through user fees, service charges, assessments, special taxes, or developer agreements when benefits can be specifically attributed to users of the facility.
- D. The City will use the following criteria to evaluate pay-as-you-go versus long-term financing in funding capital improvements:

Pay-As-You-Go

- 1. When current revenues and adequate fund balances are available or when project phasing can be accomplished.
- 2. When debt levels adversely affect the City's credit rating.
- 3. When market conditions are unstable or present difficulties in marketing.

Long-Term Financing

- 1. When revenues available for debt service are deemed to be sufficient and reliable so that long-term financing can be marketed with investment grade credit ratings.
- 2. When the project securing the financing is of the type which will support an investment grade credit rating.
- 3. When market conditions present favorable interest rates and demand for City financing.
- 4. When a project is mandated by State or Federal requirements and current revenues and available fund balances are insufficient.
- 5. When the project is required to meet or relieve service requirements.
- 6. When the life of the project or asset financed is 10 years or longer.

Debt Management

- E. The City will not obligate the General Fund to secure long-term financing except when the marketability can be significantly enhanced.
- F. No more than 60% of all capital projects **other than Enterprise Fund** projects will be funded from long-term financing; and direct debt will not exceed 2% of the City's assessed valuation.
- G. A feasibility analysis will be prepared for each long-term financing to assess debt service on current and future operations. This will also include an analysis on the reliability of revenues to support a debt service.

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- H. The City will generally conduct debt financing on a competitive basis. However, negotiated financing may be used due to market volatility or the use of an unusual or complex financing or security structure.
- I. The City will seek investment grade ratings (Baa/BBB or greater) on any direct debt and will seek credit enhancements such as letters of credit or insurance when necessary for marketing purposes, availability and cost-effectiveness.
- J. The City will monitor all forms of debt annually coincident with the budget process.
- K. The City will diligently monitor its compliance with bond covenants and ensure its adherence to federal arbitrage regulations.
- L. The City will maintain good communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus (Official Statement).

CAPITAL IMPROVEMENT BUDGET

- A. Construction projects and capital purchases (other than vehicles, equipment and major computer software acquired through the Equipment Fund and projects funded by an Enterprise Fund) which cost more than \$10,000 will be included in the Capital Improvement Budget (CIB); minor capital outlays of \$10,000 or less will be included with the operating activity budgets. Enterprise Fund projects and major equipment purchases will be based on the capitalization practices of the Enterprise.
- B. The purpose of the CIB is to systematically plan, schedule, and finance capital acquisitions to ensure cost-effectiveness as well as conformance with established policies. The CIB will be a four-year plan organized into the same functional groupings used for the operating budget. The CIB will reflect a balance between capital replacement projects which repair, replace, or enhance existing facilities, equipment or infrastructure; and capital facility projects which significantly expand or add to the City's existing fixed assets.
- C. Every capital project will have a project manager who will prepare the project proposal, ensure that required phases are completed on schedule, authorize all project expenditures, ensure that all regulations and laws are observed, and periodically report project status.
- D. A CIB Coordinating Committee, chaired by the Directors of Public Works and the Electric Utility Department, will review project proposals, determine project phasing, recommend project managers, review and evaluate the draft capital budget plan, and report project status at least annually to Council. The Committee should be made up of representative of each Department.

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- E. The Capital Improvement Budget will emphasize project planning, with projects progressing through at least two and up to six of the following phases:
- * **DESIGNATED** - Set aside funding for future project development under "pay-as-you-go" financing.
 - * **STUDY** - Includes concept design, site selection, feasibility analysis, schematic design, environmental determination, property appraisals, scheduling, grant application, grant approval, and specification preparation for equipment purchases.
 - * **ACQUISITION** - Includes equipment purchases and property acquisition for projects, if necessary.
 - * **DESIGN** - Includes final design, plan and specification preparation, and construction cost estimation.
 - * **CONSTRUCTION** - Includes bid administration, construction, project inspection and management, and closeout.
 - * **DEBT SERVICE** - Installment payments of principal and interest for completed projects funded through debt financing.

Generally, it will become more difficult for a project to move from one phase to the next. As such, more projects will be studied than will be designed, and more projects will be designed than will be constructed or purchased.

- F. Funding and related appropriation to a project account will only be made upon approval of each phase by the City Council. Accordingly, project appropriations for acquisition and construction will generally be approved when contracts are awarded.
- G. Project phases will be listed as objectives in the program narratives of the Activity responsible for the project.
- H. Funding set aside for designated projects will lapse after three years if the project has not made significant movement through the phases, or if the project has not been revalidated. This will ensure funds are not tied up and are available for the timely completion of active projects. The projects where funding set aside has lapsed will have to be resubmitted for consideration in the next budget cycle.

HUMAN RESOURCE MANAGEMENT

- A. Regular authorized staffing will be fully budgeted and funded.
- B. Staffing and contract service budget ceilings will limit total expenditures for regular employees, temporary employees, overtime and independent contractors hired to provide operating and maintenance services.

BUDGET POLICIES

- C. Regular employees will be the core work force and the preferred means to staff ongoing, year-round activities rather than independent contractors. The city will strive to provide fair compensation and benefit schedules for its authorized regular work force. Each regular employee will:
 - 1. Fill an authorized regular position.
 - 2. Be assigned to an appropriate bargaining unit or representative group.
 - 3. Receive salary and benefits consistent with labor agreements or other compensation plans
- D. To manage the growth of the regular work force and overall staffing costs, the City will follow these procedures:
 - 1. The City Council will authorize all regular positions except in the case of the Library which is governed by the Library Board.
 - 2. The Human Resources Department will coordinate the hiring of all employees and evaluate the reallocation of existing positions.
 - 3. All requests for additional regular positions will include an evaluation of:
 - a. The necessity, term, and expected results of the proposed position.
 - b. Staffing and material costs including salary, benefits, equipment, uniforms, clerical support, and facilities.
 - c. The ability of private industry to provide the proposed service.
 - d. Additional revenues or cost savings which may be realized.
 - 4. Periodically, and prior to any request for additional regular positions, programs will be evaluated to determine if they can be accomplished with fewer regular employees under a "productivity review".
- E. Temporary employees are employees other than regular employees, elected officials, and volunteers budgeted in hours. Temporary employees will augment regular City staffing only as limited term employees, seasonal employees, emergency, intermittent, contract employees, and interns. The City Manager will encourage the use of temporary employees to meet peak workload requirements, fill interim vacancies, and accomplish tasks where less than regular, year-round staffing is required.
- F. Contract employees will be defined as temporary employees with written contracts approved by the City Manager who may receive approved benefits depending on hourly requirements and the length of their contract. Contract employees will generally be used for medium-term (generally between six months and two years) projects, programs, or activities requiring specialized or augmented levels of staffing for a specific period of time. The services of contract employees will be discontinued upon completion of the assigned project, program or activity. Accordingly, contact employees will not be used for services that are anticipated to be delivered on an ongoing basis.

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- G. Independent contractors will not be considered City employees. Independent contractors may be used in two situations:
1. Short term, peak workload assignments to be accomplished through the use of personnel contracted through an outside employment agency. All placements through an outside employment agency will be coordinated through the Human Resources Department and subject to the approval of the Human Resources Director.
 2. Construction of public works projects and the provision of operating, maintenance, or specialized professional services not routinely performed by City employees. Such services will be provided without close supervision by City staff, and the required methods, skills, and equipment will generally be determined and provided by the contractor.

PRODUCTIVITY REVIEW

The City will constantly monitor and review its methods of operation to ensure that services continue to be delivered in the most cost-effective manner possible. This review process encompasses a wide range of issues, including:

- A. Maintaining a decentralized approach in managing the City's services. Although some level of centralization is necessary for review and control purposes, decentralization supports productivity by:
- o Encouraging accountability by delegating authority to the lowest possible level.
 - o Stimulating creativity, innovation, and individual initiative.
 - o Reducing the administrative cost of operation by eliminating unnecessary review procedures.
 - o Improving the organization's ability to respond to changing needs and to identify and implement cost saving programs.
 - o Assigning responsibility for effective operations and citizen responsiveness to the department.
- B. Analyzing systems and procedures to identify and remove unnecessary review requirements.
- C. Evaluating the ability of new technologies and related capital investments to improve productivity.
- D. Investing in the City's most valuable asset - personnel staff - by developing the skills and abilities of all City employees, with special emphasis on first-line supervisors.
- E. Implement annual performance reviews and appropriate methods of recognizing and rewarding exceptional employee performance.
- F. Evaluating local market service providers and other government agencies to determine whether the service is available at a lower cost than provided by City staff.
- G. Periodic formal review of operations on a systematic, ongoing basis.

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CONTRACTING FOR SERVICES

A. General Policy Guidelines

1. Contracting with the private sector and other government agencies for the delivery of services provides the City with the opportunity for cost containment and productivity enhancement. As such, the City is committed to using private sector resources in delivering municipal services as a key element in our continuing efforts to provide cost effective services.
2. Private sector contracting approaches under this policy include construction projects, professional services, outside employment agencies, and ongoing operation and maintenance services.
3. In evaluating the costs of private sector contracts compared with in-house performance of the service, indirect, direct and contract administration costs of the City will be identified and considered.
4. Whenever private sector providers are available and can meet established service levels, they will be seriously considered as viable service delivery alternatives using the evaluation criteria outlined below.
5. For programs and activities currently provided by City employees, conversions to contract services will generally be made through attrition, reassignment or absorption by the contractor.

B. Evaluation Criteria

Within the general policy guidelines stated above, the cost-effectiveness of contract services in meeting established service levels will be determined on a case-by-case basis using the following criteria:

1. Is a sufficient private sector market available to deliver this service?
2. Can the contract be effectively and efficiently administered?
3. What are the consequences if the contractor fails to perform, and can the contract reasonably be written to compensate the City for any such damages?
4. Can a private sector contractor better respond to expansions, contractions, or special requirements of the service?
5. Can the work scope be sufficiently defined to ensure that competing proposals can be fairly and fully evaluated, as well as the contractor's performance after bid award?
6. Does the use of contract services provide the City with an opportunity to redefine service levels?
7. Will the contract limit the City's ability to deliver emergency or other high priority services?

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8. Overall, can the City successfully delegate the performance of the service but still retain accountability and responsibility for its delivery?

ALLOCATING THE COST OF SERVICES

A. General Policy Guidelines

1. The City is committed to achieving efficiency by centralizing general administrative services to the extent they serve the needs of the City as a whole and provide for greater cost efficiency. Accordingly, general and administrative services will be charged to those activities not financed by the General Fund by use of a cost allocation plan.
2. The City will develop a cost allocation plan for general government services provided the City's enterprise fund and special revenue fund activities in accordance with accepted cost allocation methodology.
3. The cost of general government services will be financed by operating transfers established in the cost allocation plan and transferred to the general fund annually at the time the City budget is adopted.
4. The Finance Director will perform periodic reviews of the City's cost allocation plan to ensure the distribution of costs are made in accordance with accepted practices of the City. The results will be used to project annual operating transfers.
5. The City will develop a cost allocation plan in accordance with Federal and State policies to ensure the maximum allowable return to the City of indirect/overhead costs.

B. Cost Allocation Criteria

1. Costs will be allocated considering the following criteria:
 - * Cause and effect - the identification of output in proportion to the service provided.
 - * Benefits received - the allocation of cost in relation to the benefits received.
 - * Fairness and equity - the allocation must be mutually satisfactory to the parties affected.
 - * Ability to bear - the allocation of cost must consider the ability to pay and the impact on the services provided.
2. Costs will be allocated to activities when the overall service benefits the City as a whole but a particular cost benefit can not be shown.
3. The criteria for allocating costs will be included in the City budget to allow for evaluation of the cost distribution criteria.

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CARRYOVER POLICY

The Two year Financial Plan and Budget used by the City provided the City Council and staff with the opportunity to commit operating funds to services over a two-year time frame rather than the traditional one-year period. Under a one-year budget, appropriations lapse at the end of the fiscal year, and favorable budget balances are no longer available for operating expenditures except when encumbered under contractual agreements. The two year financial plan and budget allows for the unexpended operating budget balances to be carried forward to the second year of the Financial Plan. To ensure fund balance projections remain on target, any unexpended operating balances will be reduced if the actual revenue received is materially less than the estimated revenue projected in the Financial Plan.

The use of carryover funds from the first year into the second year of the Financial Plan recognizes that the delivery of new or enhanced services often require more time to staff, equipment, organize and implement than may be possible in a one year time period. Carryover funding for operating programs into the second year provides staff with the opportunity and flexibility to improve service and maintain current operations without significant dislocation or disruptions in service delivery systems. Under this concept, the following carryover policy will be followed:

- A. All operating budget appropriations lapse at the end of the second year of the two-year financial plan and budget except for funds encumbered under contractual agreement (which includes commitments made through purchase order) for goods and services which are essential to the operation of the City in the year for which they are encumbered.
- B. Operating budgets may be encumbered to ensure adequate funding for goods and services required to conduct City operations in the year in which they are encumbered. Encumbrances must be evidenced by a binding contractual agreement (including purchase orders) between the City and the party required to deliver the goods and services. Under special conditions, requests for carryover may be made by memorandum detailing the need for carryover of funds, and such a request may be considered as an encumbrance at the discretion of the Finance Director. For carryover into the subsequent year, all such contracts, purchase orders, or special request must be submitted by June 15 of each fiscal year.
- C. The City Manager is authorized to carry forward the unexpended and unencumbered operating budget balances from the first year to the second year of the City's Financial Plan and Budget and to program these balances for re-appropriation under the following conditions:
 - 1. The budget balances were unexpended for reasons beyond the control of the operating department.
 - 2. Re-appropriation of budget balances is required to ensure full funding of programs and services approved by the City Council.
 - 3. The expenditure of these funds will promote innovation, efficiency, and effectiveness in the delivery of City services and programs.

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- D. The total of all favorable variances regardless of type (personnel, utilities, supplies, services, or minor capital) are available for carryover with the approval of the City Manager, and will be aggregated at the fund level by department. Under this approach, program overages within the department may be offset by program shortfalls. However, in no case may departmental overages in one fund be offset by departmental savings in another.
- E. The budget carryover will be accounted for in a non-departmental control account established by the Finance Department.
- F. The Finance Department will provide Department Heads with a formal balance of operating funds available for carryover by the end of the second quarter of the second fiscal year. Departments will be able to determine a tentative balance of their carryover funds prior to that date by reviewing the June 30 Financial Reports. However, these are unaudited numbers which are subject to change and, as such, the carryover balances are not official until published by the Finance Department.
- G. Department Heads may request through a Special Allocation Request that the unexpended budget balances of their first year operating budget be reappropriated into the second year of the two-year financial plan. All requests must justify the need for the funds in the second year and explain why the funds were not expended or encumbered in the year they were budgeted.
- H. When carryover requests are approved by the City Manager, the Finance Department will transfer the funding to the designated line item(s) of the Department Budget as provided on the Special Allocation Request form.

FLEET POLICY

In 1997 Council adopted the Fleet Policies and procedures which are to govern the management, operation, acquisition and disposition of vehicles and equipment owned and leased by the City of Lodi. Under these adopted policy guidelines, the City organized City vehicles into two fleets: General Fund and Enterprise Fund. Fleet committees were established to serve the City Manager in all vehicle-related matters to include budgeting, acquisition, disposition, assignments, vehicle operation, maintenance and insurance.

Under the budget process, replacement vehicles are generally budgeted and funded in the General Fleet Fund or Enterprise Fleet Funds. Based on projected replacement needs, the City Manager and Finance Director recommend an annual target funding level as part of the budget process. This target funding level helps to establish a minimum fund balance in the appropriate Fleet Funds.

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The recommended 2001-03 target funding is:

	General Fund	\$ 425,000	based on historical replacement needs
→	Water Fund	\$ zero	based on replacement requests
→	Wastewater Fund	\$ 71,000	based on replacement requests
→	Electric Fund	\$ 435,000	based on historical replacement needs

The target funding does not authorize specific replacements. Vehicles will be replaced based on target funding if the replacement is justified and approved by the appropriate Fleet Management Committee. The recommendation of the Fleet Management Committee to replace existing vehicles costing \$50,000 or less per vehicle is contingent on the approval of the CM. All replacement vehicles costing more than \$50,000 require budgetary and subsequent procurement approval by the City Council.

In addition, requests to increase the size of the City fleet will be included in the regular Capital Improvement Budget not the Capital Improvement Budget for Replacement Vehicles.